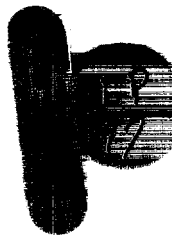


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CENTRAL INTELLIGENCE AGENCY

Project: **IP-97**

OFFICE OF REPORTS AND ESTIMATES

Project Initiation Memorandum

Date: **31 March 1950**

For: **D/FE**

From: Publications Division, Projects Planning

Subject: **Chinese Communist Bond Issue**

Statement of Project:

Origin: Internal (K-1416 and K-143)

Purpose: To furnish specified information concerning the Chinese Communist bond issue.

Scope: Information requested includes:
(1) Terms of issue (interest rates, maturity, amount, negotiability)
(2) Amount subscribed
(3) Anticipated anti-inflationary currency changes.

Graphics (if any):

Form: Memorandum (orig. & 2)

Print due in D/Pub: 7 April 1950

Responsible Division: **D/FE**

Dissemination deadline
14 April

Internal Coordination: **None**

7 April 1950

Departmental Responsibilities: **None**

Classification to be no higher than: **Secret**

Recommended Dissemination: **Requester only**

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Copy to D/FE
AD/OIRF
25X1A

CENTRAL INTELLIGENCE AGENCY

Project: 1P-97

OFFICE OF REPORTS AND ESTIMATES

Project Initiation Memorandum

Date: 31 Mar 50

To: D/FE

From: Publications Division, Projects Planning

Subject: Chinese communist bond issue

Statement of Project:

Origin: Internal (K-1416 and K-1413)

Problem: To furnish specified information concerning the Chinese communist bond issue

Scope: Information requested includes:

- ① Terms of issue (interest rates, maturity, amount, negotiability)
- ② Amount subscribed
- ③ Anticipated anti-inflationary currency changes

Graphics (if any):

Form: Memorandum (orig. + 2)

Draft due in D/Pub: 7 April 1950

Responsible Division: D/FE

Dissemination deadline
(if any)

7 April 1950

Internal Coordination: None

Departmental Responsibilities: None

Classification to be no higher than: Secret

Recommended Dissemination: Requester only

25X6

1. ~~China~~ - Finance

~~CONFIDENTIAL~~

24 March 1950

MEMORANDUM FOR: D/Pub, ORE

ATTENTION : Mr. [REDACTED] 25X1A

SUBJECT : Request for Information

REFERENCES : Our Cases Nos. K-1416 & K-1413

1. It is requested this office be furnished the following information concerning the Chinese Communist Bond Issue:

a. Terms of the issue, as to interest rates, maturity, amount of issue and negotiability.

b. Amount subscribed at present.

2. We would also like information as to whether or not the Chinese Communist are contemplating any devaluation or similar change in Chinese currency as a method of combating the present inflation.

3. We would appreciate a reply by ~~30 March~~ 1950.

? April

(by phone, 3 Apr.)

25X1A

[REDACTED]
Acting Chief, Intelligence Support

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ROUTING AND RECORD SHEET

INSTRUCTIONS: Officer designations (see separate sheet) should be used in the "To" column. Under each comment a line should be drawn across sheet and each comment numbered to correspond with the number in the "To" column. Each officer should initial (check mark insufficient) before further routing. This Record and Routing Sheet should be returned to Registry.

FROM: ISB 24 March 1950

ACCESSION NO.

C20169

DATE RECEIVED IN S. A.

24/3

TO	ROOM NO.	DATE		OFFICER'S INITIALS	COMMENTS
		RECEIVED	FORWARDED		
1. D/Pub, ORE. Mr. [REDACTED]	25X1A				
2.					
3.					
4.					
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15.					

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TRANS' TAL SLIP		
28 1950 DATE		
TO: <i>D. H. Park</i>		
BUILDING	ROOM NO.	
REMARKS:		
25X1A		
FROM: [REDACTED]		
BUILDING	ROOM NO.	EXTENSION
FORM NO. 36-8 SEP 1946		

SECRET

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Note: The classification of this memorandum must be raised to conform to the classification of the draft it covers.

Date 7 April 1950

MEMORANDUM FOR CHIEF, PUBLICATIONS DIVISION

SUBJECT: Transmission of Draft Report

ENCLOSURE: IP-97 "Chinese Communist Bond Issue"

(3 copies)

1. Enclosure is forwarded herewith for review and, if required, for formal coordination with the departmental intelligence organizations.

2. This draft report has been coordinated informally with the organizations checked below:

None

Within CIA:

D/GI	<input type="checkbox"/>	D/NO	<input type="checkbox"/>
D/In	<input type="checkbox"/>	D/LA	<input type="checkbox"/>
D/Tr	<input type="checkbox"/>	D/WE	<input type="checkbox"/>
D/EE	<input type="checkbox"/>	D/Ma	<input type="checkbox"/>
D/FE	<input type="checkbox"/>	D/EC	<input type="checkbox"/>
D/NE	<input type="checkbox"/>	Other	<input type="checkbox"/>


Outside CIA:

State (OIR)	<input type="checkbox"/>
Army (ID/GSUSA)	<input type="checkbox"/>
Navy (ONI)	<input type="checkbox"/>
Air (AID)	<input type="checkbox"/>
Other	<input type="checkbox"/>

3. Maps and/or Graphics to be included in this report and arrangements completed for their production by the Map Division or the Presentation Staff are as follows:

4. Comments:

. 25X1A


Captain, USN

Division D/FE

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CHINESE COMMUNIST BOND ISSUE

On December 2, 1949, the Central People's Government Council (the top policy making and legislative organ of the Chinese Communist regime) passed a resolution announcing the issue of "People's Victory Bonds." It was intended that receipts from the bond issue would cover about 40 percent of the government's deficit in 1950. The remainder of the deficit is to be met by further expanding the paper money issue.

1. Size of the Bond Issue

Although bond subscriptions are payable in People's Bank Notes (the current Communist currency) the size of the bond issue is not described in monetary terms but rather in real terms as "units." A unit is a composite commodity index defined as 6 catties of rice, 1.5 catties of wheat flour, 4 feet of fine cloth, and 16 catties of coal. The price of these commodities is to be calculated according to the average of their current wholesale prices in Shanghai, Tientsin, Hankow, Sian, Canton and Chungking. Thus, as prices go up, the cost of a bond unit in terms of Chinese currency goes up correspondingly. With repayment also to be made in units, the bond purchaser is presumably protected against loss due to inflation.

The 1950 budget prescribes the issue of 200 million units of People's Victory Bonds. The U.S. dollar value of a bond unit changes with time, since the ratio of the rate for dollar exchange to local commodity prices is subject to variation. In recent weeks, the value of a bond unit has approximated some US 80¢.

2. Terms of Issue

The bonds bear annual interest at 5 percent. Part of the issue is to be redeemed each year with complete redemption to be effected in five years time.

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Bonds called for repayment are to be selected by calling lots.

The official resolution announcing the bond issue did not mention negotiability. The Ministry of Finance, however, has ordered that the bonds "shall not circulate in the market in the place of currency, nor may be used as collateral in national banks and shall not be bought and sold as a medium of speculation."

3. Amount Subscribed

Thus far, the Communist authorities have called for subscriptions to 100 million units, payable by March 30. The campaign to sell the remaining 100 million units is to be conducted later in the year.

In selling the first 100 million units, the Communists have set quotas for the major cities. Thus the population of Shanghai has been obliged to subscribe 30 million units. In addition to their rigorous propaganda appeals, the Communists have resorted to duress, arbitrarily assigning quotas to business firms and wealthy individuals.

According to current reports, it appears that the initial Communist campaign to sell 100 million units by March 30 has been unsuccessful. Canton has probably fallen far short of its subscription quota. Shanghai came nearer to realizing its subscription quota, but current intelligence indicates that subscribers have been unable to make payment on their forced bond pledges. A Communist appeal broadcast from Shanghai 25 days before the March 30 deadline stated that cash payment had been received for only one-fourth of the bonds sold.

4. Present Outlook

Because of the current business depression in Shanghai, Canton, and other coastal cities, the business community has been unable to honor in full its commitments (made under duress in many cases) to purchase People's Victory

Bonds. The failure of the initial drive to sell 100 million units portends even

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greater disappointment with the results of the second drive to sell the remaining 100 million units later in the year. In many cases, bond pledges in the first drive were met by disposing of capital assets rather than from current income. With the depletion of their capital and with current income probably continuing at a low level during the remainder of the year, the ability of firms to buy bonds in the second drive will be less than it was in the first. In addition a probable reduction in the number of business firms, as a result of bankruptcies, should further narrow the market for the government bonds later in the year. It is doubtful that the Communists can even approach their 200 unit sales goal in 1950.

The Communists will not, in 1950, effectively offset the inflationary effects of their failure to sell People's Victory Bonds by such deflationary measures as increased taxation or curtailment in government expenditures. The Communists have already exploited the possibilities of tax revenues to the maximum, and increased tax rates may result in diminishing returns as a result of discouragements to production and stimulus to evasion. The possibilities for curtailing government expenditures this year are also limited because of the continuing civil war and consequent necessity to maintain a large military establishment. It is noteworthy that even with a completely successful bond sale, the Communists expected to cover the greater part of their government deficit by printing more paper money. The failure of the bond selling campaign emphasizes the dependence of the Communists on paper money financing and the likelihood of continued currency depreciation for the remainder of 1950.

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